



**OVATION SCIENCE INC.**

Management Discussion & Analysis

For the three and nine months ended September 30, 2019 and 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of November 28, 2019 and should be read in conjunction with the audited financial statements for the year ended December 31, 2018, and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of Ovation Science Inc. (the "Company"), unless specifically noted.

### FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the Company's operations. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or its achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. See also "Cautionary Statement Regarding Forward-Looking Information".

### DESCRIPTION OF BUSINESS

The Company was incorporated under the Business Corporations Act of British Columbia on July 18, 2017. The Company was established to take advantage of a new business opportunity to use patented Invisicare® technology in the production of skin products containing derivatives of cannabis, including THC, cannabinoids and hemp oil. Under the terms of the Invisicare Agreement described in detail below, the Company holds the exclusive world wide right to manufacture, distribute, sell, market, sub-license and promote products formulated with Invisicare®, containing cannabis products including cannabinoids, hemp seed and synthetic derivatives of cannabis.

Invisicare® is a patented polymer-based technology for topical and transdermal skin care products. The advantages of products using Invisicare® are enhancement of drug delivery to the skin by delivering greater amounts and enhancing cannabinoid penetration to enter the blood stream as required. The technology also forms a protective bond that holds ingredients on skin resisting rub-off and wash off, is non-occlusive and allows for normal skin respiration and perspiration and the formulations do not contain alcohol, parabens, waxes or other organic solvents.

The Company's business model is to sublicense Invisicare® enhanced product formulations to licensed businesses engaged in the production of cannabis or hemp products for approved markets and/or geographic areas. At June 30, 2018, the Company had two sublicensees, Canopy, which holds the exclusive sublicense for certain cannabis-based products in Canada. The Company's second sublicensee is Lighthouse, which holds the exclusive license for the United States for licensed dispensaries and non-exclusive outside of dispensaries in the United States. Canopy also has certain rights of first refusal to license products for other worldwide markets. On April 16, 2019, the Company announced that it and Canopy had mutually elected to terminate their license agreement, eliminating any restrictions preventing the Company from dealing with other licensed producers in Canada and terminating the right of first refusal held by Canopy.

Under the Company's business model, it earns revenue from a number of sources including, licensing fees, product development fees, product royalties, and polymer sales to its sublicensees.

Since incorporation on July 18, 2017, the Company's activities have focused on developing product lines and entering sublicensing agreements, including the Canopy License Agreement and the Lighthouse License Agreement. The

Company intends to continue sublicensing with other government licensed companies engaged in the sale of cannabinoid and/or hemp oil containing products worldwide.

The Company develops skin care lines containing hemp seed oil and cannabis, and licenses rights to hemp seed oil and cannabis products. The Company has the exclusive world-wide rights to all hemp seed oil and cannabis products (hemp and marijuana) developed with Invisicare®, which enhances the delivery of drugs and other ingredients to and through the skin. The Company, through the Invisicare® Agreement has the right to use Invisicare®, a skin delivery technology covered by patents in eleven (11) countries including the USA and Canada. The Company has developed topical and transdermal creams and lotions made with CBD, THC and combinations thereof plus hemp seed oil. All formulations are formulated with Invisicare® and go through a rigorous pharmaceutical testing process to ensure the formulations are validated throughout the process. The Company does not handle product formulas containing marijuana and the production and testing of marijuana containing products is done at the licensed premises of its sublicensees. As previously discussed, the Company’s business model is also to sublicense the Invisicare® enhanced products to licensed businesses engaged in the production of cannabis or hemp products for certain markets and/or geographic areas.

In April 2019, the Company announced it will be launching its own hemp-derived CBD anti-aging skin care line called ARLO CBD Beauty. ARLO CBD Beauty will initially launch with four products with line extensions planned for later in the year. This announcement was followed by the results of Ovation’s sunscreen testing. Ovation’s CBD SPF 30 sunscreen passed independent testing for highest claims available: broad-spectrum and 80 minute water-resistance. This product will be added to the ARLO CBD Beauty product line.

To support the Company’s continued efforts to develop science-based products, the Company entered into an exclusive agreement with Skincareguide.com Ltd., a leading international peer-reviewed publisher and an authoritative source of dermatology information for physicians and consumers since 2001, to act as the Company’s Medical Dermatology Advisory Board for cannabis formulated products. The objective of the Medical Dermatology Advisory Board is to provide guidance, along with clinical, scientific, research and strategic advice to the Company as it continues to advance its topical and transdermal cannabis product development.

On May 22, 2019 the Company announced the completion of its second cannabidiol (“CBD”) product line Invibe MD. Invibe MD is a “health and wellness” product line infused with hemp-derived CBD and delivered by Ovation’s patented skin delivery technology.

#### 2018 Farm Bill

On December 20, 2018 the 2018 Farm Bill became law in the United States. Under the 2018 Farm Bill, industrial and commercial hemp will no longer be classified as a Schedule I controlled substance in the United States. Under the 2018 Farm Bill, hemp includes the plant *Cannabis sativa L.* and any part of that plant, including seeds, derivatives, extracts, cannabinoids and isomers. To qualify under the 2018 Farm Bill, hemp must contain no more than 0.3 percent of delta-9-tetrahydrocannabinol (THC).

The 2018 Farm Bill explicitly allows interstate commerce of hemp which will enable the transportation and shipment of hemp. Ovation expects the removal of hemp as a controlled substance will positively impact the public perception of hemp and sales of its topical and transdermal products containing CBD should increase. In addition, Ovation expects that now that industrial and commercial hemp is federally authorized, the barriers to national distribution have been eliminated and therefore the trend should be product sales expanding nationally in the United States for Ovation and its licensees.

## Health Canada

On December 22, 2018, Health Canada published in the Canada Gazette, Part I, draft regulations for edible cannabis, cannabis extracts and cannabis topicals. These regulations cover the production and sale of cannabis topicals and permitting their legal sale by October 17, 2019.

This is positive news for Ovation as following legalization of topical CBD and THC products, Ovation can expand its business into Canada.

## Recreation transdermal creams

On February 19, 2019, the Company announced the creation of a new product category for the cannabis market: recreational transdermal creams. This first-to-market recreational cannabis product has been formulated to quickly deliver a high-dose of THC into the blood stream (transdermal).

This new product is marketed and distributed in the USA by Cannabiniers under the name BASKiN GLOW. BASKiN GLOW contains 500 milligrams of THC and 50 milligrams of CBD in each 59 ml jar. This product will be a game-changer in the cannabis industry and the Company is the leader in this new category.

The recreational transdermal cream has been developed using Ovation's drug delivery technology and has the following unique distinctions; Proprietary polymer delivery system delivers high-dose THC to the blood stream; bypassing first-pass through the liver; Patent-protection means no other cream can deliver like Ovation's; The unique formula delivers THC transdermally without the use of a patch; it's invisible; significant demand has been established with multiple pre-orders; Third-party testing verifies potency of each product; available in Nevada dispensaries and coming soon to California and other states where legalized.

With over twenty years of topical drug delivery experience, Ovation's management and science team has created a unique pipeline of over twenty-five topical and transdermal cannabis products including CBD, THC and combination products along with a line of anti-aging / beauty products made with CBD.

On May 21, 2019 the Company completed the development of its second cannabidiol ("CBD") infused product line focused on health and wellness Invibe MD. The product line is infused with hemp-derived CBD and is delivered by Ovation's patented skin delivery technology. This new product line follows the Company's anti-aging skincare product line ARLO CBD Beauty.

Invibe MD will begin with three products: Troubled Skin, Keep Fit Sports Relief and R&R (Rest & Relaxation). Our product line has additional products that have completed development and will be launched at a later time.

Invibe MD:

- Our Invibe MD wellness creams have been developed using Invisicare® drug delivery technology; a technology with over twenty years of research and development in the pharmaceutical industry; specifically dermatology and is patented in eleven countries;
- The Invibe MD products are enhanced with hemp-derived CBD to provide the maximum effect; CBD has many benefits when used topically and without the potential side-effects of smoking, vaping or edibles; CBD is non-psychoactive and does not contain THC so it does not get you high;
- All Ovation products are thoroughly tested to ensure product stability and to validate that they deliver the stated amount of high quality CBD.

There are many benefits to using a topically applied CBD product compared to other methods of delivery. Using products like ARLO CBD Beauty or Invibe MD allows the user to apply the cream or lotion directly on the area affected. The CBD is absorbed into the skin and since it does not have to be digested like oils or edibles, the products work quickly and effectively, focusing right on the area where it is needed.

Statements have not been evaluated by the Food and Drug Administration. These products are not intended to diagnose, treat, cure, or prevent any disease.

On June 25, 2019 the Company announced that its product under license in the USA, remains the #1 topical cannabis product sold in Nevada dispensaries. According to Headset data, a cannabis analytics company that provides key business intelligence to the cannabis industry, Ovation Science's transdermal CBD (cannabidiol) formulation under license again is ranked the #1 selling topical in Nevada during April, May and June by number of units sold according to their latest update. For more information, visit: <https://www.headset.io>

Ovation's patented skin delivery technology, Invisicare®, is the backbone of all products developed by Ovation Science. It provides exceptional topical and transdermal delivery of CBD and THC to and through the skin; greater than other products on the market according to the Company's research studies.

The continued #1 ranking of our product in Nevada will be a catalyst to expansion into other states by our licensee. This will add immediate royalty revenue and shareholder value as our products will have the opportunity to be offered in significantly more dispensaries than before.

The company also have interest from potential licensees outside of the USA including Canada and Europe and these opportunities would give Ovation's products the opportunity for global expansion. Ovation products are unique from other infused product companies as the Company leverages its expertise in the pharmaceutical industry to develop highly effective, patent-protected products that have the results to prove it.

Ovation products are used for improved wellness, pain management and even anti-aging, to name a few. Ovation earns revenues from licensing and development fees, royalties and the sale of Invisicare to its licensees. In addition, the Company will be launching its new line of CBD Beauty products in July in the US both in the retail market and online. Statements have not been evaluated by the Food and Drug Administration. These products are not intended to diagnose, treat, cure, or prevent any disease.

On September 23, 2019 the Company announced that it has launched its e-commerce website [www.ArloCBDBeauty.com](http://www.ArloCBDBeauty.com) featuring its anti-aging beauty line ARLO CBD Beauty. The website is designed for US consumers who want to purchase high quality anti-aging products infused with the benefits of CBD.

ARLO CBD Beauty products showcase Ovation's commitment to be a leader in the CBD skin care space and to elevate the standards surrounding the quality and efficacy of topical CBD products available to consumers. The website will serve as a platform to highlight Ovation Science's dedication to the following high standards:

**High Quality CBD:** Ovation uses only high quality, non-psychoactive CBD (cannabinoid), derived from US grown industrial hemp (with less than .03% THC) so our products are non-psychoactive;

**Effective Products Backed By Science:** Ovation is dedicated to bring only highly effective products to the market with ingredients that work synergistically to bring you the best possible results.

**We Stand Behind Our Products:** Customer satisfaction is guaranteed or your money; Ovation continues to increase shareholder value by seeking expanded patent protection for its products as well as developing new unique, effective products that can be brought to the market in the US, Canada and globally. Ovation also persists in its negotiations with potential global partners for possible licensing opportunities and joint ventures.

## OVERALL PERFORMANCE

*For the three and nine months ended September 30, 2019:*

As at September 30, 2019, the Company had \$1,190,230 (December 31, 2018 - \$468,969) in cash. For the three and nine months ended September 30, 2019, the Company generated revenue of \$78,908 and \$193,775 (2018 - \$28,924 and \$46,903) and a gross profit of \$73,973 and \$177,086 (2018 - \$20,406 and \$26,873).

On January 8, 2019, the Company granted 100,000 stock options to a consultant of the Company. The options entitle the holders to acquire common shares of the Company at \$0.30 per share and expire on January 8, 2021. During the

nine months ended September 30, 2019, the Company recorded share-based payment expense of \$14,432, for these options. The stock options were valued using the Black Scholes Option Pricing model using the following assumptions: share price: \$0.30, expected life: one year, expected volatility: 127%, dividend yield: 0%, and risk-free interest rate: 1.88%.

During the nine months ended September 30, 2019, the company issued 60,000 common shares for the exercise of 60,000 stock options at \$0.30 for cash proceeds of \$18,000 and issued 21,510 common shares for the exercise of 21,510 broker warrants at \$0.45 for cash proceeds of \$9,680.

#### *Revenue and gross margin*

Revenues and gross margins for the nine months ended September 30, 2019 were \$193,775 and \$177,086, respectively (2018 - \$46,903 and \$20,030, respectively). The Company primarily derived its revenue from its relationship with Lighthouse Strategies, LLC which commenced on April 2018.

#### *Operating expenses*

Operating expenses for the three and nine months ended September 30, 2019 were \$278,505 and \$741,563 (2018 - \$90,018 and \$299,900). The increase primarily relates to an increase in management and director fees, increase in advertising and promotion, increases in professional fees, increase in product development expenses and increase in share-based payments.

The increase in management and director fees relates to growth of the Company and increase time and attention required by members of management. The increase in advertising and promotion expense is due to the Company's growing operations. The increase in professional fees relates to legal, accounting and consulting fees incurred. The increase in product development expense relates to creation of a new product category for the cannabis market: recreational transdermal creams. The increase in share-based payments expense relates to options issued in the current period, which were not issued in prior periods.

#### *Other income (expenses)*

Other income for the three and nine months ended September 30, 2019 were \$63,372 and \$31,109 (2018 - \$10,462 and \$29,665). The increase primarily relates to change in fair value of derivative liability, which arose from the issuance of convertible debt denominated in a foreign currency (U.S. dollars). Also contributing to the increase is interest expense as a result of convertible notes issued during the year ended December 31, 2018. These factors were partially offset by interest income of \$20,638 in the nine months ended September 30, 2019.

## **SUMMARY OF QUARTERLY RESULTS**

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and are expressed in Canadian dollars.

	September 30, 2019	June 30, 2019	March 31, 2019	Dec 31, 2018
Three months ended,	\$	\$	\$	\$
Total revenue	78,908	55,701	59,166	49,505
Net loss	(141,161)	(203,960)	(188,248)	(205,711)
Basic and diluted net loss per share	(0.01)	(0.01)	(0.01)	(0.01)

  

	Sep 30, 2018	June 30, 2018	March 31, 2018	Dec 31, 2017
Three months ended,	\$	\$	\$	\$
Total revenue	28,924	17,979	-	12,545

Net loss	(3,080,074)	(140,749)	(81,869)	(61,541)
Basic and diluted net loss per share	(0.01)	(0.01)	(0.00)	(0.03)

- i) The Company's net loss decreased in the three months ended September 30, 2019 as compared to the preceding quarter. The decrease is due to the change in the fair value of the derivative liability in Q3 from \$25,082 to \$72,304.
- ii) The Company's net loss increased in the three months ended June 30, 2019 as compared to the preceding quarter. The increase is due to the Company incurring in advertising and promotion for \$78,982 and \$51,124 for office and general expense during the three months ended June 30, 2019 in comparison to \$27,400 and \$23,593 during the three months ended March 31, 2019 respectively. The increase was offset by a gain in the fair value of the derivative by \$2,899 during the three months ended June 30, 2019 in comparison to the loss in the fair value of the derivative for \$27,980 incurred during the three months ended March 31, 2019.
- iii) The Company's net loss decreased in the three months ended March 31, 2019 as compared to the preceding quarter. The decrease is due to the Company incurring in legal expenses for \$4,363 and transfer and filling fees for \$2,327 during the three months ended March 31, 2019 in comparison to \$10,156 and \$13,635 during the three months ended December 31, 2018 respectively.
- iv) The Company's net loss increased in the three months ended December 31, 2018 as compared to the preceding quarter. The Company incurred advertising promotion fees of \$88,136 and increased office and general expenses of \$36,383. Revenues increased by \$20,581 due to increases in packaging fees earned.
- v) The Company's net loss decreased in the three months ended September 30, 2018 as compared to the preceding quarter. The Company did not incur any share-based payments and had a decrease of \$27,479 in professional fees. Revenues increased by \$10,945 due to increases in packaging fees.
- vi) The Company's net loss increased in the three months ended June 30, 2018 as compared to the preceding quarter. The Company incurred increased professional fees of \$48,703 and incurred product development expenses of \$11,295.
- vii) The Company's net loss increased in the three months ended March 31, 2018 as compared to the preceding quarter. The Company incurred a larger foreign exchange loss increase by \$9,078 and increases in office and general expenses of \$10,206.
- viii) The Company began operations in the three months ended December 31, 2017. The net loss increased by \$61,159 and included management fees of \$49,500 and professional fees of \$9,026.
- ix) From the period of Incorporation July 18, 2017 to September 30, 2017, incorporation occurred, but operations had yet to commence.

Loss and comprehensive loss for the nine months ended September 30, 2019 was \$533,368 (2018 - \$302,692). The overall increase loss of \$230,676 was due to an increase in operating expenses of \$441,662 and an increase in other expenses of \$1,444 offset by an increase in gross margin of \$150,212.

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2019 the Company had a working capital of \$992,408 (December 31, 2018 - \$1,582,627) and cash of \$1,190,230 (December 31, 2018 - \$468,969). The increase in cash was primarily a result of redemption of the Company's Guaranteed Investment Certificate ("GIC") for a cash equivalent readily convertible to cash.

### *Operating activities*

Net cash used in operating activities for the nine months ended September 30, 2019 was \$570,295 (2018 – \$184,925). The decrease in cash from operating activities mostly relates to the losses incurred during the nine months ended September 30, 2019 for \$533,368 (2018 - \$302,692) offset by non-cash adjustments and changes in working capital items for \$174,087 (2018 – \$117,767). The non-cash adjustments are comprised of unpaid interest for \$22,739, accretion expense for \$6,548 and a change in in the fair value of the derivative liability for \$47,223 offset by a decrease in changes in working capital for inventory purchases by \$40,887.

*Investing activities*

For the nine months ended September 30, 2019, cash provided by investing activities was \$1,401,037 (2018 – \$58,378). This relates to redemption of the GIC for a cash equivalent readily convertible to cash, as well as the purchase of property plant and equipment for \$98,963.

*Financing activities*

Net cash used in financing activities for the nine months ended September 30, 2019 was \$109,481 (2018 - \$60,442). The decrease relates to the repayment of promissory notes for \$125,108 offset by the proceeds received from the issuance of shares for \$27,680.

**SUBSEQUENT EVENTS**

On October 8, 2019, the Company granted stock options to two directors and a consultant to purchase a total of 300,000 common shares of the Company. Each option granted can be exercised to purchase one common share of the Company at \$0.30 per share and expires two years from the date of issuance. The options vest immediately.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company did not have any off-balance sheet arrangements during the period ended September 30, 2019.

**RELATED PARTY TRANSACTIONS**

The Company has identified its directors and certain officers as its key management personnel. Current directors and officers of the Company are as follows:

Logan Anderson, Chief Financial Officer  
 Terry Howlett, Chief Executive Officer  
 Doreen McMorran, Vice President and Director  
 Ian Howard, Director  
 Joan Chypyha, Director  
 David Ryan, Investor Relations Officer

The remuneration of directors and key management personnel for the period ended is as follows:

	<b>Nine months ended September 30, 2019</b>	<b>Nine months ended September 30, 2018</b>
Management fees	\$ 261,058	\$ 148,000
Director fees	1,800	-
Share-based payments	-	12,980
	<b>\$ 262,858</b>	<b>\$ 161,480</b>

*Related party payables*

As at September 30, 2019, due to related parties of \$37,825 (2018 - \$144,782) consists of accrued interest and management fees due to related parties. These amounts are non-interest bearing, unsecured and due on demand.

The Company entered into the following related party transactions during the nine months ended September 30, 2019:



- a) Included in management fees, salaries and benefits fees are fees of \$31,500 (2018 - \$31,500) charged or incurred by Amteck Financial Corp., a company controlled by Logan Anderson, the Chief Financial Officer of the Company. Amounts payable as at September 30, 2019 were \$nil (2018 - \$3,675);
- b) Included in management fees, salaries and benefits are fees of \$118,876 (2018 - \$54,000) charged or incurred by Terry Howlett, the Chief Executive Officer (“CEO”). Amounts payable as at September 30, 2019 were \$nil (2018 - \$54,000)
- c) Included in management fees, salaries and benefits are fees of \$27,000 (2018 - \$27,000) charged or incurred by David Ryan, Investor Relation Officer of the Company; Amounts payable as at September 30, 2019 were \$nil (2018 - \$nil)
- d) Included in management fees, salaries and benefits are fees of \$128,838 (2018 - \$81,000) charged or incurred by Doreen McMorran, Vice-president and Director of the Company; Amounts payable as at September 30, 2019 were \$5,660 (2018 - \$54,800).
- e) Included in management fees, salaries and benefits are directors’ fees of \$1,800 (2018 - \$9,000) charged or incurred by directors of the Company. Amounts payable as at September 30, 2019 were \$nil (2018 - \$12,000)
- f) On September 12, 2019, Ovation Science USA Inc. purchased furniture and lab equipment from a company with two common directors for \$98,963 (\$75,000 USD).

## **DISCLOSURE OF OUTSTANDING SECURITIES DATA**

As at November 28, 2019, the total number of outstanding common shares, warrants and stock options are 23,234,631 4,647,490 and 1,150,000, respectively.

## **PROPOSED TRANSACTIONS**

The Company does not have any proposed transactions.

## **FINANCIAL INSTRUMENTS**

The Company has classified its short-term investments, trade and other receivables, accounts payable and other liabilities, due to related parties and convertible notes as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. The Company has classified its cash as a financial asset measured at fair value through profit and loss.

Financial assets and financial liabilities are offset, and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company’s derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Changes in the fair values of derivative financial instruments are reported in the statements of loss and comprehensive loss.

## **CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of the financial statements are in Note 2 of the audited financial statements for the year ended December 31, 2018.

### *Initial adoption of new accounting standards*

Adoption of new accounting standards have been disclosed in Note 2 of the Company’s condensed consolidated interim financial statements for the nine months ended September 30, 2019.

### *Future accounting standards issued but not yet in effect*

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Pronouncements that may have a significant impact to the Company have been disclosed in Note 2 of the Company's condensed consolidated interim financial statements for the nine months ended September 30, 2019.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

#### **ADDITIONAL INFORMATION**

Additional information and the documents filed with the Canadian securities regulatory authorities are available at the Company's profile on <http://www.sedar.com> and on the Company's website <http://ovationscience.com/>